

Message Text

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PAGE 01 JIDDA 03800 221056Z

ACTION EB-08

INFO OCT-01 IO-13 AF-10 ARA-10 EA-10 EUR-12 NEA-11

SOE-02 AID-05 CEA-01 CIAE-00 COME-00 DODE-00

DOE-15 H-01 INR-10 INT-05 L-03 NSAE-00 NSC-05

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 2120

AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

USINT BAGHDAD

AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

USMISSION GENEVA

AMEMBASSY JAKARTA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY QUITO

USLO RIYADH

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

C O N F I D E N T I A L JIDDA 3800

E.O. 11652: GDS

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PAGE 02 JIDDA 03800 221056Z

TAGS: ENRG,SA

SUBJECT: YAMANI ON OIL PRICES

1. DEPARTMENT WILL PROBABLY HAVE NOTICED TEXT OF INTER-
VIEW GIVEN BY MIN PET YAMANI TO CHICAGO TRIBUNE ECONOMIC
EDITOR LAST WEEK IN RIYADH, IN WHICH YAMANI DISCUSSED
POSSIBILITY OF OIL PRICE INCREASE IN 1979. AFTER

DESCRIBING HIS PROJECTION OF OIL MARKET IN TERMS SIMILAR TO ONES HE USED WITH JOURNALISTS AT END OF TAIF OPEC MEETING (I.E., SURPLUS FOR ANOTHER YEAR OR SO, MARKET EQUILIBRIUM FOR ANOTHER 5-6 YEARS, THEN PERIOD OF OIL SHORTAGE), YAMANI MADE ARGUMENT FOR SERIES OF GRADUAL OIL PRICE INCREASES IN EARLY 1980'S, RATHER THAN EFFORT TO HOLD PRICES DOWN ONLY TO HAVE THEM GO THROUGH ROOF IN SUBSEQUENT SHORTAGE PERIOD. IN SHORT TERM, HE SAID, THERE IS 50-50 CHANGE OF OIL PRICE INCREASE AT BEGINNING OF 1979.

2. COMMENT: YAMANI'S RECENT STATEMENTS SEEM TO BE SIGNALLING THAT SAG WILL CONTINUE STRONGLY TO OPPOSE PRICE RISE IN 1978, BUT THAT ITS POLICY ON PRICE IN 1979 AND BEYOND WILL BE INFLUENCED BY ITS PERCEPTION OF WHAT MARKET WILL BEAR. GIVEN INCREASING CONSERVATIONIST ATMOSPHERE IN SAUDI ARABIA, LOW CURRENT PRODUCTION RATES ARE ACCEPTABLE TO SAG, WHICH IS PREPARED TO PLAY ITS PREDOMINANT ROLE IN SUPPORTING OPEC PRICE LEVEL AS LONG AS OTHER PRODUCERS ARE NOT MANEUVERING TOO BLATANTLY TO INCREASE THEIR MARKET SHARE AT SAUDI EXPENSE. LOW CURRENT PRODUCTION HAS EASED IMMEDIATE PRESSURE ON SAG TO INCREASE EVENTUAL PRODUCTION CAPACITY, WHILE AT SAME TIME REDUCING THE FUNDS AVAILABLE TO DO SO. THE SAG UNDOUBTEDLY FINDS THE RESULTANT AMBIGUITY ABOUT ITS FUTURE PRODUCTION

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PAGE 03 JIDDA 03800 221056Z

CAPACITY AND INTENTIONS TO BE A CONSTRUCTIVE PROD TO CONSUMING NATIONS TO REDUCE OIL IMPORTS, AND BELIEVES THAT THE PROSPECT OF MODERATE PRICE RISES IN THE 1980'S WILL ALSO BE INCENTIVE FOR REDUCED IMPOTS. WE BELIEVE THAT SAG CAN BE EXPECTED TO MOVE DELIBERATELY (AND PROBABLY UNILATERALLY), FOLLOWING THE PRESENT PERIOD OF GLUT, IN A WAY WHICH WILL HELP KEE THE MARKET TIGHT AND PRICES FIRM OR CLIMBING GRADUALLY. GIVEN SAUDI ARABIA'S ABILITY TO INFLUENCE THE SIZE OF THE POTENTIAL OIL SHORTAGE HE FORESEES FOR MID-1980'S, YAMANI'S COMMENTS SHOULD PERHAPS BE SEEN MORE AS PREDICTIONS OF INTENT RATHER THAN AS DISINTERESTED ESTIMATES.

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